# A Primer on Credit Derivatives

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## Abstract

Credit derivatives have rapidly become a key financial tool in the capital markets as a way to accept or transfer credit risk. These instruments have had a significant effect on financial markets, both in easing the trading of credit risk and increasing the complexity of financial transactions. The impact of credit derivatives is so extensive that anyone involved in enterprise risk management (ERM) must develop a basic understanding of these vehicles. Some insurers now routinely use credit derivatives as a financial management technique, and others are likely to do this in the future. Even if an insurer does not directly trade credit derivatives, understanding this aspect of the financial markets, and the key credit derivative metrics, is becoming increasingly important. This paper explains the development of the credit derivative market, describes the most common types of credit derivatives, discusses how insurers can and do use these instruments and explains the role they played in the financial market turmoil of 2008.